Housing Privatization Lessons Learned Workshop

Portfolio Management

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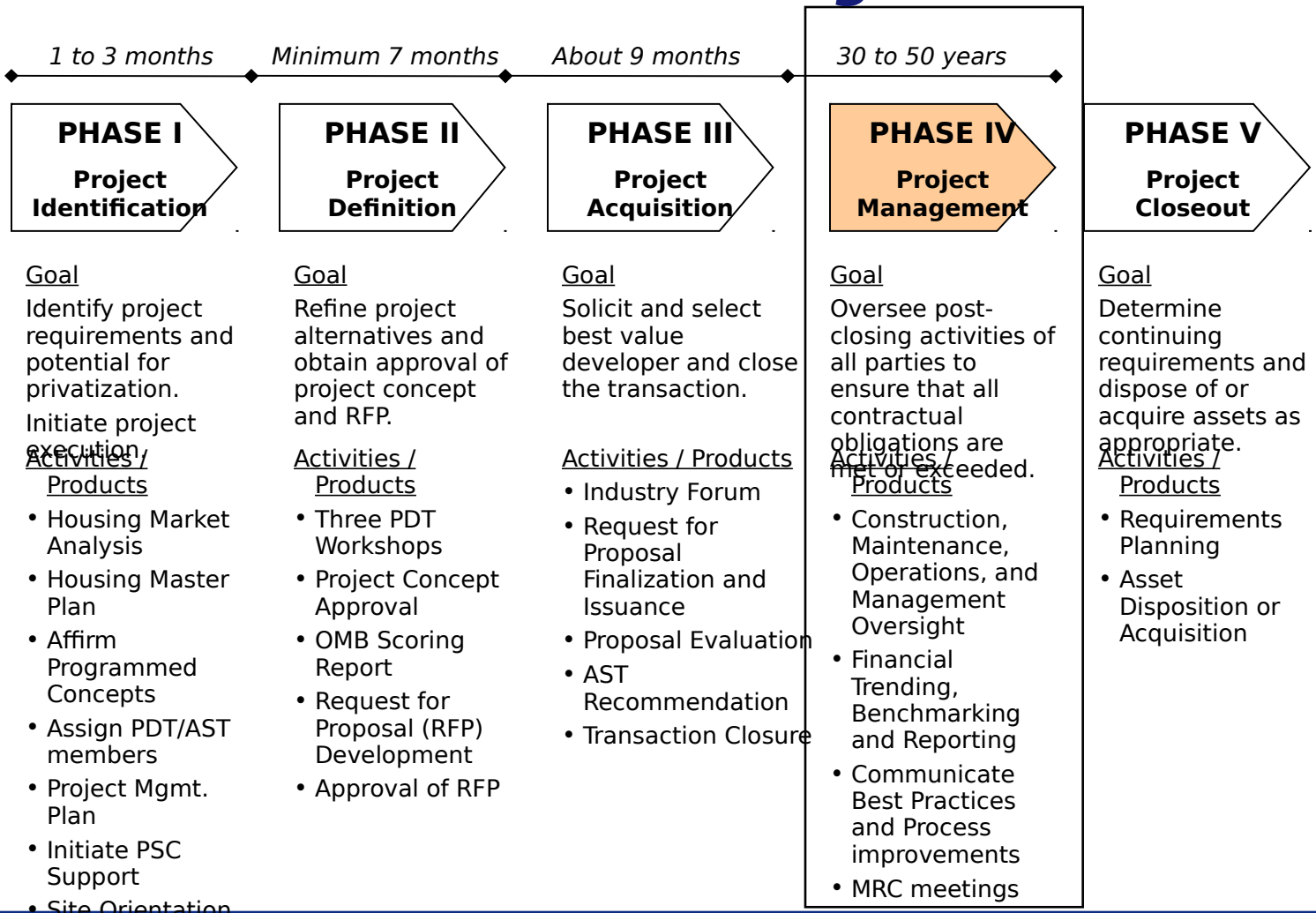
Housing Privatization Phases

Portfolio Management Defined


1 to 3 months
Minimum 7 months
About 9 months
30 to 50 years
PHASE I
Project Identification
Goal
Identify project requirements and potential for privatization.
Initiate project execution.
Activities / Products
• Housing Market Analysis
• Housing Master Plan
• Affirm Programmed Concepts
• Assign PDT/AST members
• Project Mgmt. Plan
• Initiate PSC Support
• Site Orientation Visit
• Execution Plan
PHASE II
Project Definition
Goal
Refine project alternatives and obtain approval of project concept and RFP.
Activities / Products
• Three PDT Workshops
• Project Concept Approval
• OMB Scoring Report
• Request for Proposal (RFP) Development
• Approval of RFP
PHASE III
Project Acquisition
Goal
Solicit and select best value developer and close the transaction.
Activities / Products
• Industry Forum
• Request for Proposal Finalization and Issuance
• Proposal Evaluation
• AST Recommendation
• Transaction Closure
PHASE IV
Project Management
Goal
Oversee post-closing activities of all parties to ensure that all contractual obligations are met or exceeded.
Activities / Products
• Construction, Maintenance, Operations, and Management Oversight
• Financial Trending, Benchmarking and Reporting
• Communicate Best Practices and Process improvements
• MRC meetings
• Issue Identification, Solution
PHASE V
Project Closeout
Goal
Determine continuing requirements and dispose of or acquire assets as appropriate.
Activities / Products
• Requirements Planning
• Asset Disposition or Acquisition

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Portfolio Management
Introduction

- AF Portfolio Manager Role
- MAJCOM/Installation Roles
- Policy Issues
- Lessons Learned
- Summary

Portfolio Management
AFCEE Role

SAF/FM Designation of AFCEE as AF Housing Privatization Portfolio Manager (1 Feb 2001)

- **Authority to fully perform all the roles and responsibilities necessary to provide long-term oversight**
- **Enforce terms of transactional documents**
  - **Ground Lease**
  - **Use Agreement**
  - **Operating Agreement**
  - **Lockbox Agreement**
  - **Quitclaim Deed/Bill of Sale**
  - **Direct Loan Note/Mortgage**
  - **Loan Guarantee Note/Mortgage**
  - **Intercreditor Agreement**
- **Take actions to enhance the best interests of AF**

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AFCEE Role

AF Portfolio Manager Provides:

- **Monitoring and Evaluation**
  - **Overall Project Performance (operational, financial, technical)**
  - **Benchmarking and Trending Analysis**
  - **Overall Portfolio Performance**
- **Reporting**
- **Identification and Resolution of Problems**
- **Fiduciary Responsibilities**
  - **Direct Loans**
  - **Guaranteed Loans**
- **Document Management**

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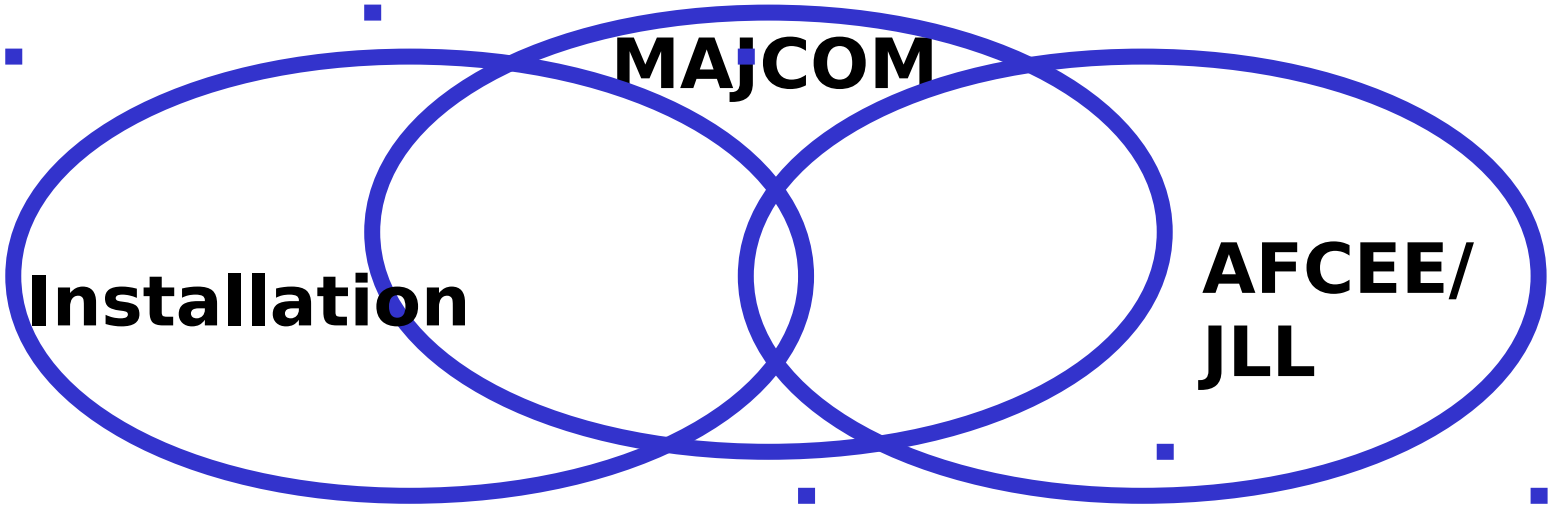
MAJCOM and Installation Roles

- **MAJCOM provides**
  - **Project oversight**
  - **Guidance to the installation**
- **Installation provides day-to-day oversight and interaction with the Project Owner for the housing privatization project**
  - **Chair MRC**
  - **Manage Tenant Referral / Demographics**
  - **Review and Approve Annual Budgets**
  - **Manage Design & Construction Oversight (Title II)**
  - **Perform Local Compliance Testing to Ensure Compliance with Project Documents**
  - **Oversight of Development Quality Control, Security and Operations**
  - **Assess Physical Condition**
  - **Collect and Provide Portfolio Management Documents to AFCEE as Required**
  - **Conduct Tenant Surveys**

Portfolio Management Team



OVERSEE PRIVATIZATION PROJECTS AND PROTECT GOVERNMENT'S INTERESTS

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Policy Clarifications

- **Air Force Housing Privatization Policy and Guidance (AFI)**
- **Direct Communications with all parties (government and commercial) to project transactions**
  - **Generic RFP Documents notice sections shall specify direct submittal of data and information from project owner, lockbox agent, to AF Portfolio Manager.**
  - **As considered necessary in the execution of portfolio management responsibilities, AF Portfolio Manager shall meet with project owners, lockbox agents, other commercial lenders, installations, MAJCOMs, or any other parties**
  - **Standard Formats/Tools for reporting and tracking**

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Lessons Learned

- When the party is over…
- There are five distinct areas of learning to cover:
  - Communications
  - Workload
  - Staffing and Organizational Structure
  - Lockbox Agent and Budget Issues
  - Understanding Project Document Contents

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Lessons Learned - Communications

- Communications issues abound in the process because there are so many stakeholders
- Go in early and often - we need to better communicate to the MAJCOM and Installation Commander what Portfolio Management is
- Installation leadership must define success and set expectations
- We must communicate directly with the various stakeholders to reduce delays and improve the quality of information
- Goal: Concurrent receipt (same information at the same time)
- We need to clarify Installation roles and responsibilities so the Installation can determine resource needs
- Tenant communications
  - Don’t promote the fallacy of transparency and seamlessness (leases, grass, pets, damages, use of amenities)
  - Reliable information is the best deterrent to the rumor mill
  - Expect small but vocal opposition; if you can win these folks over, you will have won the battle

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Lessons Learned - Communications

- **Data Gathering Challenges**
  - **Large number of data sources**
    - **Installation (Housing Office, Engineering, Environmental, DCAA, Project Manager)**
    - **Lockbox Agent**
    - **Property Manager**
    - **Project Owner**
    - **Developer**
    - **Lenders**
  - **Hurdles**
    - **AF Portfolio Manager was not included as a contact in legal documents for early projects**
    - **Project Owners and Developers were wary of communicating with AFCEE Support Contractor**
    - **Misunderstanding of AF Portfolio Manager role by the Installation/MAJCOM results in over-expectations or perception of overstepping authority**

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Lessons Learned - Communications

- **Data Collection Needs**
  - **Developer**
    - **Unit completions**
    - **Monthly construction expenditures**
    - **Updated schedules/expense forecasts**
  - **Project Owner and Property Manager**
    - **Quarterly Financial Statements**
    - **Quarterly Operations Reports (occupancy, service calls, rent roll, account balances, turnover, delinquency)**
    - **Annual audited financial statements**
    - **Summary of cash flows through the Lockbox**
    - **Explanations of variances and trends**

Portfolio Management
Lessons Learned - Communications

- **Data Collection Needs (continued)**
  - **Installation Resources**
    - **First Alert! "Bad news never gets better"**
    - **Compliance testing**
    - **Waiting lists**
    - **Referrals**
    - **GOQ Spending**
  - **Lockbox Agent**
    - **Monthly Lockbox statements**
    - **Summary of cash flows through the Lockbox**
    - **Disbursement requests**

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Lessons Learned - Communications

- **With everything else we have to do, why should this be a priority?**
  - **The success of privatization may depend on it!**
    - **Timely and accurate information is required to spot problems early**
    - **Deadlines are short**
    - **Ability to identify trends is diminished**
    - **Ability to benchmark is diminished**
  - **Incomplete project level reports go to the Installation Commander**
  - **Incomplete data for the project in Portfolio Reports to the MAJCOM and Air Staff**
- **BOTTOM LINE**
  - **Data loses effectiveness as time passes**
  - **Air Force may be unnecessarily exposed to risks by being unaware of the facts**

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Lessons Learned - Workload

- **Privatized Housing is a lot of work!**
  - **The Installation retains significant long-term Project Management Responsibility**
    - **Quarterly Compliance Testing**
    - **Day-to-day monitoring**
    - **MRC Meetings and Minutes**
    - **Annual Budget Approvals**
    - **Referrals and waiting list maintenance**
    - **Quarterly data submissions to AF Portfolio Manager**
    - **Oversight of subsequent improvements/renovations**
    - **Corroborate developer variance explanations**
    - **Provide “real-time” information regarding significant events that impact the base and privatized housing**
- **AF Portfolio Manager will provide guidance to the installation in all of these areas**

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Lessons Learned – Staffing & Structure

- **Installation Staffing and Organizational Structure will Impact the Performance of any Project**
  - **There exists a variety of staffing levels and organizational structures**
  - **“Build a 50-year team” Ted Franklin, Elmendorf AFB**
  - **Maintaining base-level personnel with an understanding of the execution phase and the transactions details is critical**
  - **Assigning a base-level individual as the central point of contact with responsibility for ensuring base performance is also critical**
- **A76**
  - **Is Installation Housing operating under an MEO?**
  - **Does the contract provide for the extra workload required by Privatization?**
  - **If an A76 is forthcoming, consider privatization requirements when developing the contract**

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Lessons Learned – Lockbox Agent Issues

- **Air Force privatization lockbox agreements are very complicated and difficult to administer**
  - **Two-stages (during and after construction)**
  - **As many as thirteen disbursements per month**
  - **Complex equity calculations**
  - **Incomplete information to administer the agreement**
  - **Difficulty navigating the Air Force bureaucracy**
  - **Lack of Control (in some instances)**

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Lessons Learned – Lockbox Agent Issues

- **Lockbox Agents may need assistance in:**
  - **Understanding the cash flow waterfall**
  - **Establishing administration and reporting systems/tools**
  - **Arranging for loan payments and allotments**
  - **Obtaining information from Air Force Sources (Certificates of Completion, Property Taxes, Written Authorizations for Disbursement)**
- **AF Portfolio Management oversight of the Lockbox Agent is critical to ensure the Lockbox Agreement is administered properly**

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Lessons Learned – Budgets

- **Budgets**
  - **Purpose**
    - **Budget is both a forecast and a proposal**
    - **Allows the Air Force to assess if spending is reasonable**
    - **Allows the Air Force to compare projected Lockbox Balances to original pro forma projections**
  - **Timing and Process**
    - **Due 90 days before end of the calendar year (timing conflicts with quarterly reporting)**
    - **Air Force has 30 days to respond, approve or decline with recommended changes**
    - **Developer has 30 days to respond, accept recommendations or reject**
    - **Rejection results in mediation through established channels**
    - **Developer to use previous year budget until differences are resolved**

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Lessons Learned – Budgets

- **Impact on Cash Flow Waterfall**
  - **Budgeted operating expenses are the first item of priority according to the Lockbox Agreement**
  - **If not reviewed, Project Owners could profit from budget manipulation**
    - **Shifting non-project expenses to the project budget**
    - **Excessive “consulting” or “professional” fees paid to the Project Owner**
    - **Simply “overstating” expenses to provide working capital**
  - **Actual spending is to be reconciled to the budget quarterly**
  - **Budgets can be amended to reflect changes in actual spending, if necessary**

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Lessons Learned – Project Documents

- It is critical to understand transactional project documents
  - Transactional documents bind the AF and successful offeror to the “deal”
  - But 3500 pages is a lot to comprehend!
    - Compliance Checklist-Readers Digest version
    - Executive Summary
    - Document “cheat sheet”

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Summary

- **AF Portfolio Manager, MAJCOM and Installation all have significant roles in ensuring privatized project success**
  - **Oversight of developers, project owners and property managers is critical to the long-term viability and health of privatized housing**
  - **Installations are responsible for day-to-day oversight and must have adequate resources to meet their obligations**
  - **AF Portfolio Manager is expected to execute appropriate oversight and control of all Air Force privatization projects**
  - **Together, the installation and the AF Portfolio Manager must protect the interests of the Air Force**
  - **Success is not simply building houses but ensuring that the Project Owners have sufficient cash flows to fund their long-term maintenance, repair and replacement.**
- **Ultimate goal: Provide safe, quality, and affordable housing to AF service members and their families *for the long-term***

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Contact Information

QUESTIONS?

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